SEP 8 1986

Y 4. H 89: In 2

99th Congress
2d Session

COMMITTEE PRINT

MF 220

FOREIGN INDEBTEDNESS AND BASIC HUMAN NEEDS IN FOUR AFRICAN COUNTRIES

Study Prepared in the Foreign Affairs and National Defense Division of the Congressional Research Service

FOR THE

SELECT COMMITTEE ON HUNGER U.S. HOUSE OF REPRESENTATIVES

SEPTEMBER 1986

ORIGINAL

Printed for the use of the Select Committee on Hunger

U.S. GOVERNMENT PRINTING OFFICE
63-127 O WASHINGTON : 1986

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

CDD

I

BEST COPY AVAILABLE

SELECT COMMITTEE ON HUNGER

MICKEY LELAND, Texas, *Chairman*

TONY P. HALL, Ohio
BOB TRAXLER, Michigan
LEON E. PANETTA, California
THOMAS A. DASCHLE, South Dakota
VIC FAZIO, California
SAM GEJDENSON, Connecticut
PETER H. KOSTMAYER, Pennsylvania
SALA BURTON, California
BYRON L. DORGAN, North Dakota
MARGE ROUKEMA, New Jersey
BILL EMERSON, Missouri
SID MORRISON, Washington
BENJAMIN A. GILMAN, New York
COOPER EVANS, Iowa
ROBERT F. (BOB) SMITH, Oregon
DOUG BEREUTER, Nebraska

PROFESSIONAL STAFF

MIRANDA G. KATSOYANNIS, *Chief of Staff*
JOHN D. CUTTELL, *Minority Staff Director*

BEST COPY AVAILABLE

LETTER OF TRANSMITTAL

The Select Committee on Hunger, because of its strong and continuing commitment to efforts to alleviate hunger, malnutrition and absolute poverty around the world, commissioned this study "Foreign Indebtedness and Basic Human Needs in Four African Countries" to examine the impact external debt has on a country's ability to meet the basic human needs of its populace.

Prepared in the Foreign Affairs and National Defense Division of the Congressional Research Service, the first part of this study contains a brief discussion of the relationship between basic human needs and foreign indebtedness, and reviews alternative debt management strategies. The next four parts deal respectively with the specific debt and economic situations in Nigeria, Senegal, Sudan and Mauritania.

I commend this study to the Congress, and take this opportunity to express my appreciation to the Congressional Research Service for preparing this valuable and timely study.

Mickey Leland
Chairman

CONTENTS

ABSTRACT.....iii

I. OVERVIEW.....1
A. Four Diverse African Economies: Mauritania, Sudan, Nigeria, and Senegal.....1
B. Basic Human Needs and Foreign Indebtedness.....3
C. Options to Deal with the Current Debt Situation.....5
1. The Lagos Plan of Action.....5
2. Paris Club; London Club.....6
3. World Bank Structural Adjustment Lending.....7
4. The Baker Plan.....8
5. $2.7 Billion IMF Structural Adjustment Facility.9
6. The Cartegena Group.....10
7. Other Proposals to Deal with African Debt.....10

II. NIGERIA.....13
A. Economic Situation.....13
B. Development Strategies and Goals.....16
C. Current Level of Indebtedness.....18
D. Effect of Debt on Human Needs Services.....19
E. Debt Policies of Lenders.....20

III. SENEGAL.....23
A. Economic Situation.....23
B. Current Development Strategies and Goals.....26
C. Current Level of Indebtedness.....27
D. Policies of Lenders.....29

IV. SUDAN.....31
A. Economic Situation.....31
B. Development Strategies and Goals.....33
C. Indebtedness.....35
D. Policies of Lenders.....37

V. MAURITANIA.....39
A. Economic Situation.....39
B. Development Strategies and Goals.....41
C. Current Level of Indebtedness.....42
D. Debt Policies of Lenders.....44

VI. APPENDICES.....46
A. African World Debt, 1984.....47
B. African Debt: % GNP, 1984.....48
C. African Debt Servicing, 1984.....49
D. Debt to U.S. Government, June 30, 1985.....50
E. Maps.....51

BEST COPY AVAILABLE

ABSTRACT

The major parts of this paper examine aspects of the economic and foreign debt situations in four Sub-Saharan countries: Nigeria, Senegal, Mauritania, and Sudan, as well as current proposals for dealing with lesser developed countries debt and the relationship between foreign indebtedness and basic human needs.

BEST COPY AVAILABLE

I. OVERVIEW *

A. Four Diverse African Economies: Mauritania, Sudan, Nigeria and Senegal

These four countries have some similarities but also great contrasts. All, Nigeria included, are very poor. Their average per capita GNP is less than $500 a year. The economy of each has stagnated during the recent past--though Nigeria did enjoy an oil boom in the late 1970s. All show significant decreases in their ability to feed their populations, and Mauritania, Sudan and Senegal have experienced actual drought to the extent that foreign food aid was required. The balance of payments of each has been heavily in deficit for the last several years, though the performance of Nigeria and Mauritania in this area has been marked by recent improvements.

On the other hand, the contrasts in their size and debt management are very great. Mauritania, population 1.6 million, has just received a standby SDR 12 million loan from the International Monetary Fund (IMF) after having met, or exceeded, all of the requirements set by the Fund for 1985. Sudan, population 22 million, has been suspended from IMF borrowing because of arrearages on past loans exceeding $250 million. Senegal, population 6 million, agreed with the Fund and its other major creditors to undertake another IMF program (and its fourth debt rescheduling) in early 1985, while Nigeria, population 88 million, refused, after extended negotiations, to enter into an IMF agreement.

---

* Prepared by Theodor Galdi, Specialist in International Political Economy.

BEST COPY AVAILABLE

While not of the magnitude of some Latin American countries, Nigeria's debt ($17 billion) is the largest of any Sub-Saharan African country. If Nigeria actually pays as scheduled, some 45 percent of its foreign exchange earnings will go to debt service this year. Unlike most other countries in Sub-Saharan Africa, Nigeria has a significant portion--some 40 percent according to the World Bank--of its debt held by private lenders.

Mauritania's external debt is $1.3 billion. Comparatively speaking, Mauritania is well off with a debt service of 35 percent of exports of goods and services. Unlike most International Development Association (IDA)-eligible Sub-Saharan African countries, Mauritania does not receive the majority of its foreign capital from multilateral institutions. Instead, the majority of its debt is owed to other Arab governments. It is interesting to note that the IMF, in announcing the availability of its most recent line of credit to Mauritania, projected an end to balance-of-payments deficits by the end of the decade.

Sudan, with a total debt of $7.3 billion at the end of 1985, has a creditor profile very similar to that of Mauritania. However, unlike Mauritania, Sudan is in arrears on most of its debt and, according to the World Bank, its scheduled debt service for 1986/87 amounts to 150 percent of its exports of goods and services. With chronically low agricultural output, political instability, and a balance of payments heavily in deficit, Sudan faces immense problems.

Senegal, with a foreign debt burden of approximately $2.4 billion in 1985, has a projected debt service of 32 percent of exports--a relatively low figure. However, since Senegal has already negotiated four different reschedulings of debt with its bilateral government donors, it is questionable

BEST COPY AVAILABLE

whether the new package of economic reform proposals agreed upon most recently will actually succeed.

B. Basic Human Needs and Foreign Indebtedness

Foreign indebtedness affects basic human needs strongly but indirectly. Indebtedness becomes a problem when repayments due preempt foreign exchange earnings that would have been used to pay for imports vital to basic human needs. In theory, it might be possible for a less developed country government to continue all domestic programs regardless of what was owed to foreign borrowers. This could be done by segregating foreign indebtedness, to be paid for by whatever foreign proceeds exports provided, from the everyday operations of the government--to be paid for with taxes, borrowing, or printing money. In reality, it proves to be impossible to isolate foreign indebtedness from current government programs.

Foreign indebtedness effects basic human needs services and the overall level of activity of the economy. Basic human needs services, such as subsidized feeding, health care or education, if provided at all, are usually provided by the governments of developing countries. As such, they require funding from tax sources, borrowing, or printing money. When these domestic revenue sources are not available, and no foreign borrowing is done, then the programs may be curtailed if they cannot be financed from private sources. In this situation (if a country's indebtedness was such that it could not borrow to continue existing programs), there would be a negative effect on the provision of basic human needs services. A more direct effect of foreign indebtedness on basic human needs services involves those activities that are wholly or primarily dependent upon imported commodities for their continuation.

BEST COPY AVAILABLE

Examples are imported gasoline supplies for buses or medicines for hospitals. Foreign exchange shortages, due to debt service requirements, curtail those basic human needs programs that require imported commodities.

The overall level of activity of an economy also affects basic human needs. The ability of citizens to meet their own requirements for food, clothing, and shelter is highly dependent upon the condition of the economy. If the overall level of activity of the economy is high, citizens of the country are more likely to be able to take care of themselves without additional help from the government. If the economy is not functioning well, due to inappropriate government policies, natural disasters, or adverse world market conditions, the ability of the citizens to meet their own needs is curtailed. Much the same relationship between foreign indebtedness and imports discussed above affects the overall level of economic activity of a less developed country. Thus, if an economy requires imported raw materials, parts, fuel, or technical assistance, and foreign exchange is not available to obtain these commodities due to debt service requirements, then the overall level of economic activity will be reduced--substantially in some instances. In some respects, the more developed and open an economy, the more sensitive it is to such foreign exchange shortages.

It is possible for an economy with a large foreign indebtedness--such as Brazil--to continue to generate employment and function in a fairly expansionary way. But this requires a very large, diverse, and basically self-sufficient economy. None of the four African countries discussed in this study--except perhaps Nigeria--is remotely self-sufficient in this respect.

BEST COPY AVAILABLE

Options to Deal With the Current Debt Situation

As the debt of African countries has increased, a number of proposals have been made to deal with the problems that have been created. This section reviews, and assesses, some of the main suggestions that have been made to deal with debt problems.

1. The Lagos Plan of Action

In August 1980, the heads of state and government of the Organization of African Unity agreed to the Lagos Plan of Action to guide their development policies over the next decade. Chapter X of the Plan, concerning the Least Developed African Countries, appears to apply to Mauritania, Senegal, and Sudan. A number of recommendations made in that chapter concern the special needs of these poor countries. Paragraph 275 (a) (vi) simply states that the developed countries should "cancel all debts contracted by African countries without any discrimination." While a few small European donors have converted some of their development assistance loans to grants, there has been no widespread support from donors for loan cancellations--or even moratoria in which both principal and interest repayments were suspended for specified periods of time.

Some spokesmen for the United States government have repeatedly stated that they have seen no need for a systemic restructuring of developing country external debt. One recent publication gave three reasons for this stand:

1) Debtor countries would have less incentive to adopt necessary adjustment policies, resulting in even greater debt servicing problems in the future;

2) It is not possible to develop criteria that could adequately take into account differences among debtor countries and their creditors; and

BEST COPY AVAILABLE

3) The supply of new credit from lenders subject to drastic past and possibly future restructuring would dry up. 1/

2. Paris Club; London Club

While debt cancellations have been rare, a number of less extensive steps have been implemented. The most common involve the rescheduling of the debt of less developed countries. In a rescheduling, a borrower country and the public or private lenders to that country get together on an ad hoc basis to set out a new payment schedule for the owed debt and, in some instances, to arrange for the provision of additional capital.

Two groups, the "Paris Club," and the "London Club," have been very active in dealing with debt generally and specifically with the debt of the four countries discussed in this memorandum. The Paris Club is the name given the informal grouping of bilateral government donors. Since 1980, the Paris Club has negotiated literally dozens of reschedulings with less developed country (LDC) borrowers, including Senegal and Sudan. Nigeria has not been involved in Paris Club reschedulings because it has not recently been a major bilateral aid recipient. Paris Club reschedulings can involve changes in both interest and principal repayment schedules.

The "London Club" is the name given those private commercial banks which have been obliged to form ad hoc groups to reschedule their debts with LDCs. Because of domestic bank regulatory policies, London Club reschedulings do not involve interest payments. (Private bank loans become "nonperforming" when interest payments are not received.) A characteristic of London Club reschedulings is the levying of additional fees or charges as a cost for

---

1/ U.S. International Development Cooperation Agency. Development Issues. The 1985 Annual Report of the Development Coordination Committee. p. 35.

BEST COPY AVAILABLE

rescheduling. In addition, interest rates on existing loans can also be changed. However, unlike Paris Club reschedulings, London Club reschedulings sometimes promise additional capital to the borrower in exchange for its promises to follow appropriate (usually IMF) economic policies. Nigeria, Sudan, and Senegal have all entered London Club reschedulings.

The multilateral institutions, the IMF and World Bank, do not reschedule their loans. One result of this policy is that in some instances large arrearages accumulate and, as has been the case of Sudan, the IMF has cut off further lending.

From the borrower's perspective, reschedulings are advantageous because they allow the repayment on due debt to be postponed until some future time when the country's balance of payments may be healthier. On the other hand, reschedulings are disadvantageous because they merely postpone repayment. The debt and any additional charges or fees still exist and still act as a drag on future foreign exchange availability. From the lender's perspective, reschedulings are advantageous because they allow the loan to be kept on the books. In addition, rescheduling fees, or increases in interest rates may be obtained. On the other hand, a rescheduled loan is one that does not provide an income stream for the bank. This affects bank earnings and if enough loans are either rescheduled or become nonperforming, the bank goes out of business with negative consequences for stockholders, depositors, and the domestic banking system.

3. World Bank Structural Adjustment Lending

Beginning in 1980, the World Bank began to make non-project loans to countries as a device to finance major sectoral policy changes in their economies. By the fall of 1985, ten structural adjustment loans had been approved for

BEST COPY AVAILABLE

countries in Sub-Saharan Africa. While these loans provide borrowing countries with additional resources and appropriate policy recommendation to accompany them, their disadvantage is that they increase debt. If the policies proposed are successful, then the foreign exchange needed to pay for the loans will be generated by economic activity. If not, the debt simply increases.

4. The Baker Plan

In October 1985, at the IMF/World Bank joint annual meeting in Seoul, Korea, Assistant Treasury Secretary Mulford presented what has become known as the Baker Plan to deal with the debt of less developed countries.

As originally proposed, the Baker Plan involved $7 billion in increased net lending by U.S. private banks over the next three years. Over the same time period, an additional $13 billion was to be forthcoming from multilateral development institutions. As part of the plan, the IMF and World Bank would have to cooperate much more closely in their activities than had previously been the case. (More recently, the amounts discussed have been $20 billion in additional commercial bank loans and an increase of $27 billion from multilateral sources over the next 3 years.) In exchange for additional funds, recipient countries would have to agree to institute policy changes, including increasing reliance on the private sector, enactment of market-oriented policy reforms, and encouragement of direct foreign investment.

After 6 months, many knowledgeable observers have commented that the amounts, specific requirements, and potential beneficiaries of the Baker Plan still remain unclear. In any case, both potential recipient countries and American commercial banks are extremely reluctant to participate. Furthermore, some observers have noted that the Baker Plan is simply a device for continuing existing debt policies.

BEST COPY AVAILABLE

5. $2.7 Billion IMF Structural Adjustment Facility

At the same joint IMF/World Bank meeting that the Baker Plan was presented, the United States made another proposal to help deal with development problems in Africa. When the IMF sold a portion of its gold stock in the mid-1970s, part of the proceeds from those sales were to be paid back to the Fund over time. According to the United States proposal, the $2.7 billion from the reflows would be set aside to provide concessional financing in support of comprehensive economic reform for the poorest countries with protracted balance of payments problems. The countries of Sub-Saharan Africa would be the primary beneficiaries of this lending. According to the U.S. proposal, eligibility would be determined by low per capita income, serious balance of payments problems, and a willingness to undertake a comprehensive growth oriented economic program. The terms would be very low interest rates with substantial grace periods. Very close coordination between the IMF and World Bank would be required for each agreement. The Structural Adjustment Facility was approved at the 1986 IMF spring meetings.

While the new Facility would provide additional funding to certain Sub-Saharan African countries, some concern about the proposal has been expressed by LDC spokesmen. First, the type of conditionality to be imposed by the Fund and Bank as a requirement for qualifying for this type of lending may be inappropriate for many Sub-Saharan African countries. Second, unless the sums forthcoming were very substantial, a country might undertake a program and find that it was in need of much greater amounts than were likely to be forthcoming. A third concern expressed by some was that the reflows would merely finance more indebtedness of the type that was already causing great problems.

BEST COPY AVAILABLE

6. The Cartegena Group

In June 1984, a group of 11 Latin American countries met in Cartegena, Colombia to consider a series of joint initiatives to ease their debt burden. News accounts prior to the meeting had given prominent attention to threats by Bolivia and Ecuador to form a debtor's cartel. The result of the meeting was a number of relatively modest proposals for dealing with debt. Among the proposals were the placement of a ceiling on interest rates, elimination of commissions and penalties in refinancing agreements, a percentage limit on the amounts of their export income that was to be devoted to debt payments, less emphasis on austerity as a short term debt solution, and more emphasis on growth as a long term solution. Early this year, a sub-group of the Cartegena group recommended that significant changes be made in existing loan agreements, especially in high interest rates.

7. Other Proposals to Deal With African Debt

At a hearing on "The African Debt Crisis" held in October 1985 by the Senate Foreign Relations Africa Subcommittee, a number of proposals to deal with debt in new ways were presented. 2/ Two of these proposals deserve attention here. The first, originally proposed in the June 1985 issue of African Events by Christine Bogdanovics-Bindert, would involve creating a flexible debt service burden. This would require creditors accepting partial payments of interest until economic improvements permitted full payment. The operational mechanism of the plan would involve negotiating a specific percentage of foreign exchange that would be devoted to debt

---

2/ U.S. Congress. Senate. Committee on Foreign Relations. Subcommittee on African Affairs. African Debt Crisis. Hearing. 99th Cong., 1st Sess., Oct. 24, 1985. Washington, U.S. GPO, 1985. 125 p.

BEST COPY AVAILABLE

service, for example, 25 percent of all export receipts. In addition, according to Ms. Bogdanowicz-Bindert, another 25 percent of export receipts would be set aside in a trust fund for the government to use to finance productive investments, priority projects or injections of capital into private markets. In exchange for the debt relief, according to the proposal, the host country would accept World Bank monitoring of the allocation of funds. In another part of the article, Ms. Bogdanowicz-Bindert proposes that banks write off--cancel--their loans to certain Sub-Saharan African countries in some instances.

A proposal presented at the Foreign Relations Committee hearing by Robert Wesson of Stanford University would allow debtor countries to repay a portion of their debt in their local currencies at an agreed-upon exchange rate. Payments in local currency would then be made into funds held by the creditor to be applied to new investments in the host country. Thus, debt could be converted into equity. This mechanism would allow the creditor to receive some return from his investment while attempting to deal with the chronic lack of investment capital in developing countries.

BEST COPY AVAILABLE

BLANK PAGE

II. NIGERIA *

Nigeria is presently attempting to recover from a severe economic slump. Nigeria currently carries the largest debt burden of any sub-Saharan African country. The debt has resulted from government policies which fostered high levels of imports despite the decrease in oil revenues which began in 1980. The Babangida government believes that its foreign creditors will reschedule debt owed to them, even without an IMF agreement, because of recent government imposed austerity measures. However, since the budget incorporating the austerity measures was based on a continuation of high oil prices, the government may have difficulty following through with its budget plans.

A. Economic Situation

Nigeria is Africa's most populous country; the Nigerian economy is the largest on the African continent. The 88 million inhabitants live in an area the size of California, Nevada, and Arizona combined, located in the temperate belt of West Africa. The economy is operated by a mix of private enterprise and government parastatal organizations.

The three main sectors in Nigeria's economy are agriculture, petroleum, and manufacturing. Over 60 percent of the population earns its living from farming, mostly subsistence agriculture. Since the oil boom in the 1970s, however, the production of agricultural commodities destined for export has

---

* Prepared by Brenda Branaman, Analyst in African Affairs.

BEST COPY AVAILABLE

declined. Production of certain important export crops has fallen dramatically. Only cocoa and rubber are still exported; peanuts are no longer exported at all; and palm oil is now imported. 1/ In addition, as a result of changing patterns of urban food consumption, the demand for wheat and rice has outstripped local production, and these cereals must now be imported. 2/ Nigeria spent an estimated $2 billion in 1984 on food imports. 3/ Total imports were $9.9 billion. In order to encourage domestic production, in 1985 the Babangida government banned further imports of rice, corn, vegetable oil, and stockfish. 4/

Nigeria's main exports in 1985 were oil and cocoa, with oil accounting for 96 percent of the total. 5/ The 1986 Nigerian government budget was based on an export price of $20 per barrel. But since the announcement of the budget, the price of oil has dropped to about $13. 6/ Since oil sales provide 96 percent of Nigeria's foreign exchange and 90 percent of its government

---

1/ Africa South of the Sahara 1984-85. London, Europa Publications Limited, 1984. p. 666-667; Department of State. Bureau of Public Affairs. Background Notes: Nigeria. September 1984. p. 5.

2/ Europa, p. 667.

3/ Department of Commerce, James Roth.

4/ Department of Commerce. Foreign Economic Trends: Nigeria. March 1986, p. 15; Department of Commerce, James Roth.

5/ U.S. Department of the Treasury. Telexed report to the House Committee on Foreign Affairs, Feb. 19, 1985, pursuant to directives of P.L. 98-473, sec. 539. p. 2, Sec. 1 (Hereafter cited as the Kemp Report.); Department of Commerce, March 1986, p. 9.

6/ Department of State, Marshall McCallie, Nigeria Desk; Department of Commerce, March 1986, p. 9-10; Nigeria: Oil Slump Hits Economy. Africa News, Feb. 24, 1986: 5; Harden, Blaine. Price Drop Threatens Nigerian Economy. Washington Post, Jan. 25, 1986: A14.

BEST COPY AVAILABLE

revenues, 7/ major changes will have to take place in government policies and programs.

Although the petroleum sector earns most of the country's foreign exchange, it employs only a very small portion of the labor force. 8/ Manufacturing is relatively unimportant, contributing only 10 percent of the total gross domestic product. The largest Nigerian industry is textiles, followed by consumer goods, car assembly, and iron and steel. 9/ Nigerian industries are themselves heavily dependent on imported raw materials, spare parts and capital goods. Thus, foreign exchange availability is a critical factor. Some firms operating at partial capacity shut down in 1985 for lack of import items. 10/

Nigeria's Balance of Payments
(in millions of SDRs)

	1980	1981	1982	1983	1984
Current Account	3,312	-5,126	-7,010	-4,445	-1,162
Capital Account	35	1,175	1,676	717	1,442
Overall Deficit	-3,493	5,258	2,144	491	-81

The current account deficit increased dramatically in 1981 and 1982, but by 1983 it began to decrease, showing that Nigeria was beginning to improve its balance of payments situation. The overall deficit rose in 1981 but was gradually reduced beginning in 1982.

7/ Department of Commerce, March 1986, p. 3.

8/ Kemp Report, p.2, Sec. 1; Department of Commerce, March 1986, p. 3.

9/ Europa, p. 669.

10/ Department of Commerce, March 1986, p. 3-4.

BEST COPY AVAILABLE

Physical Quality of Life Indicators 11/

Life expectancy (1983): 49

Number of people per physician (1980): 12,550

Adult literacy: 34 percent

Percentage of primary age children in school (1981): 98%

Infant mortality (per 1000 births): 135

GNP per capita (1984): $770

Population growth: 3.3 percent

These data indicate a very poor country with a very high population growth rate, high infant mortality, low literacy, and short life expectancy.

B. Development Strategies and Goals

The current oil glut has forced Nigeria to reassess its budget and look for new sources of foreign exchange. In October 1985, Nigeria's new military leader, Maj. Gen. Ibrahim Babangida, declared an Economic Emergency. In the emergency statement, Babangida pledged to give more encouragement to the development of agriculture, promote exports, promote foreign investment, and reduce government involvement in all sectors of the economy. 12/ One way he intends to reduce government involvement is by merging some parastatal organizations with privately owned companies. The Nigerian government supports a large number of parastatal organizations which monopolize electric power,

---

11/ World Bank. Financing Adjustment with Growth in Sub-Saharan Africa, 1986-90. Table 1: Basic Indicators, p. 67, and Table 25: Population Growth and Projections, p. 92; U.S. Congress. House Committee on Foreign Affairs and Senate Committee on Foreign Relations. Country Reports on Human Rights Practices for 1985. Joint Committee Print, 99th Cong., 2d Sess. (Report submitted by the Department of State.) Washington, U.S. GPO, February 1986. p. 247.

12/ Department of Commerce, March 1986, p. 6; Kemp Report, p. 2, Sec. 1

BEST COPY AVAILABLE

oil, finance, airlines, telephones, and railroads. The government also owns television and radio stations and some newspapers. 13/ Furthermore, parastatal organizations are directly involved in agricultural production and the distribution of agricultural products. 14/

The objectives of the new program to develop agriculture are food self-sufficiency, construction of storage facilities to reduce crop losses, and increased export earnings from cocoa, palm oil, and rubber. Among the measures taken to achieve these objectives has been the channeling of more resources to meet the needs of small-scale farmers. The 1986 budget includes increased government spending for the construction of new roads and for the improvement of old roads. The private sector is supposed to replace parastatal organizations in distributing fertilizer, developing new seed varieties, and constructing storage facilities. Finally, the government has banned the import of foods that are grown in Nigeria -- rice, corn, vegetable oil, and stockfish -- in order to increase local production. 15/

The 1986 budget addresses two basic human needs. It makes education a budget priority, and it increases spending on health services. The health program for the first time includes a family planning project. 16/

13/ Kemp Report, p. 1, Sec. 5.

14/ Van Hear, Nick. Nigeria Survey: Boosting Production is the Top Priority. African Business, April 1986: 61.

15/ Department of Commerce, March 1986, p. 8, 15; Van Hear, p. 61; Kemp Report, p. 2, Sec. 5.

16/ Department of Commerce, March 1986, p. 7-8.

C. Current Level of Indebtedness

Nigeria owed $17 billion to its foreign creditors in 1986 17/ and 45 percent of its foreign exchange earnings will be needed this year to service the debt. 18/ The debt resulted from continued high levels of imports even after the oil slump that began in 1980 reduced Nigeria's foreign exchange earnings. 19/

The Babangida government has attempted to deal with the debt in two stages. First, after a national debate on whether Nigeria should accept a new IMF standby loan, Babangida announced in early December 1985 that Nigeria would refuse the proposed loan. His decision was based on public opinion emerging from the debate. Nigerians reportedly disliked the idea of an IMF loan for three reasons. First, they feared that accepting a loan would endanger their sovereignty. Second, they feared that after years of corrupt governments, politicians would steal the IMF money just as they had stolen billions of dollars of oil earnings in the early 1970s. Third, Nigerians believed that it did not make sense while paying off the old debt to take on further new debt. The IMF loan would have amounted to $2.5 billion. 20/

The second stage in Babangida's debt policy was the inclusion of a number of austerity measures and a new policy on debt servicing in the 1986 budget. Babangida said on this occasion that in 1986 Nigeria would spend no more than

---

17/ Ottaway, David B. Nigeria Promotes Its Strategy for Foreign Debt Repayment. Washington Post, Jan. 16, 1986: A23.

18/ Kemp Report, p. 2, Sec. 1.

19/ Department of Commerce, March 1986, p. 4; Europa, p. 668, 670.

20/ Harden, Blaine. Nigeria Sets Debt Payment Ceiling. Washington Post, Jan. 5, 1986: A17; Ottaway: A23.

BEST COPY AVAILABLE

30 percent of its foreign exchange for servicing its foreign debt. 21/ Many of the austerity measures were ones which had been demanded by the IMF. Nigeria apparently followed this strategy, at least in part, because it hoped that such reforms would convince its foreign creditors to reschedule Nigeria's debt without an IMF agreement. 22/ The following changes were included in the budget:

- Government petroleum subsidies were cut. This action was expected to double the price of gasoline and diesel fuel. The amount saved would be used to rebuild roads in the rural areas.
- Government subsidies to parastatal organizations such as the electric company were cut.
- A 30 percent tax on imports was imposed. Reportedly this would amount to a de facto devaluation of Nigeria's currency, the naira. The tax would also discourage imports. The funds collected by the tax were to be used to strengthen exports of non-oil commodities.
- Wages in both government and private sector jobs were cut by between 2 percent and 15 percent.

D. Effect of Debt on Human Needs Services

Nigeria's debt and falling oil prices will affect its ability to meet its import needs. In 1986 the projected amount of foreign exchange will not be enough to cover both needed imports and debt service. Imports required for basic human needs services such as medicines, books, and fertilizers will be especially hard hit as foreign exchange earnings decline. If the government's import policy succeeds, food that is now imported could be replaced by locally produced food. However, industries--now operating at between 20 percent and 40

21/ Harden, Jan. 5, 1986: A17; Babangida's Bold Budget. New African, February 1986: 27; Department of Commerce, March 1986, p. 8.

22/ Ottaway: A23, A29; Francis, David. Nigeria's New Finance Chief Grapples With Depressed Oil Market. Christian Science Monitor, Apr. 22, 1986: 9, 12.

BEST COPY AVAILABLE

percent capacity--will operate at even less capacity as reduced amounts of foreign exchange make it even more difficult to get imported raw materials and spare parts. 23/ Lower operating capacity will result in fewer jobs.

The cut in government subsidies on petroleum will mean higher gasoline prices and could result in higher costs for transportation for urban residents. It could also cause higher food prices in the cities since farmers will have to pay more to transport their produce. On the other hand, the government intends to build more roads and improve road maintenance with the funds its saves by cutting fuel subsidies. If this is implemented, farmers will be able to market their goods more easily; in the end lowering food prices.

E. Debt Policies of Lenders

In over 2 years of negotiations with Nigeria, the IMF demanded that (1) Nigeria cut government fuel subsidies to consumers as an adjustment to the oil glut; (2) devalue the naira; and (3) eliminate its import licensing system because it was corrupt and inefficient. 24/ The import licensing system allows individuals to buy foreign goods at artificially low official prices and resell them at their true market value, a process that has resulted in large profits for certain individuals. 25/ While refusing a new IMF loan, Nigeria has imposed the first requirement and indirectly imposed the second requirement. Babangida did not impose the third requirement demanded by the IMF.

Foreign creditors have maintained in the past that no rescheduling of debts will occur without Nigeria first obtaining an IMF agreement. United

---

23/ Department of State, Marshall McCallie, Nigeria desk.

24/ Harden, Jan. 5, 1986: A17.

25/ Babangida's Bold Budget, p. 27; Harden, Jan. 5, 1986: A17, A22; Department of Commerce, March 1986, p. 7.

BEST COPY AVAILABLE

States and British officials recently reiterated this position although both countries seemed to support the new austerity measures. 26/ But both the Paris Club and some American and British banks reportedly are willing to discuss rescheduling. 27/ In addition, the World Bank has stated that its lending in 1986 will depend on the progress Nigeria shows in its economic reforms. The kinds of projects the Bank is willing to support this year are those that will have an impact on Nigeria's balance of payments. In keeping with its recently developed Sub-Saharan African strategy, the Bank is postponing some capital-intensive projects already started.

26/ Ottaway: A29; Ugochukwu, Onyema. Nigeria: The Banks Agree to a Moratorium. West Africa, Apr. 7, 1986: 711; Department of Commerce, March 1986, p. 6.

27/ More Oil to Offset Price Slump. Africa Report, March/April 1986: 40; Ottaway: A29; Harden, Jan. 25, 1986: A14.

BEST COPY AVAILABLE

III. SENEGAL *

Senegal is attempting to deal with an economy which has been in decline since independence in 1960. The country's current debt and other financial difficulties are the result of many factors, including reduced world prices for its major exports, increased oil prices, drought, and the government's inappropriate agricultural policies. Since 1979, the government, with the assistance of the IMF, World Bank, and other donors, has been trying to free itself of debt. The most recent debt rescheduling agreements--reached in 1985 with the IMF and the Paris Club--entail a number of far-reaching economic reforms designed to improve export performance.

A. Economic Situation

Senegal is a medium-sized country situated in the temperate zone on the West coast of Africa. About three-quarters of the country's 6 million inhabitants are Muslim. State involvement in the economy is substantial.

Senegal's economy is dominated by agriculture, which employs 70 to 75 percent of the work force. Other important sectors are mining, manufacturing, and tourism. Forty percent of nonagricultural wage earners are employed by the

---

*/ Prepared by Brenda Branaman, Analyst in African Affairs.

BEST COPY AVAILABLE

private sector, and 60 percent by the government and its parastatal organizations. 1/

Domestic food production has increased recently after suffering setbacks during drought in the early and late 1970s. Crops produced for local consumption include millet, sorghum, corn, fish, and livestock. The government is trying to diversify agricultural exports to include cotton, rice, sugar, and market garden produce. 2/

Phosphate production dominates the mining sector with output fluctuating according to world prices. High-grade iron ore, marble, gold, and peat reserves have been discovered but have not yet been developed.

Senegal has the second most developed industrial sector in francophone West Africa, after the Ivory Coast. Peanut oil extraction, fish processing, and textiles are the leading industries in Senegal. The only Senegalese oil refinery was shut down in May 1984 because falling world prices eliminated the slight profitability margin made by importing crude oil and processing it for domestic use and re-export. Senegal's industries are supported by a first-class port at Dakar and a good network of roads and railways. 3/

Senegal's major sources of foreign exchange are peanuts, phosphates, and tourism. Although peanut production is declining as a result of drought and competition on the world market with other vegetable oils, peanut products

---

1/ U.S. Department of State. Bureau of Public Affairs. Background Notes: Senegal. June 1984: 1; Africa South of the Sahara 1984-85. London, Europa Publications Limited, 1984. p. 719.

2/ Europa, p. 719-720.

3/ U.S. Department of Commerce. Foreign Economic Trends: Senegal. November 1985: 5.

BEST COPY AVAILABLE

still earn over half the country's foreign exchange. Phosphates earn about 20 percent and tourism about 14 percent of the total foreign exchange. 4/

At independence Senegal produced 65 to 70 percent of its cereals requirements. Now half of its cereals are imported at an annual cost of about $77.5 million. Other foods that are imported include sugar, vegetable oil, fruits, and vegetables. 5/

Senegal's Balance of Payments (in millions of SDRs) 6/

	1980	1981	1982	1983	1984	1985
Current Account	-331.9	-383.0	-278.8	-282.7	-273.7	-245.5
Capital Account	253.6	175.4	112.1	221.1	163.2	87.2
Overall Deficit	-99.3	-172.7	-162.9	-88.7	-70.3	-158.3

The current account continues to be in deficit, public and private capital inflows have been falling, and the overall deficit remains high.

4/ U.S. Agency for International Development. Country Development Strategy Statement, FY 1987, Senegal. February 1985. p. 22-23. (Hereafter cited as CDSS); U.S. Department of State. Background Notes, p. 4-5; Europa, p. 719-721, 727, Table on Exports; U.S. Department of Commerce. February 1985: 5-6 and November 1985: 5.

5/ CDSS, p. 19-20,23; U.S. Department of Commerce, February 1985: 5.

6/ The Special Drawing Right is a value derived from the values of a basket of currencies including the dollar, deutschmark, yen, British Pound, and French Franc. As such, it varies as the values of the currencies vary against each other. In December 1985, 1 SDR = $1.09.

BEST COPY AVAILABLE

Physical Quality of Life Indicators 7/

Life expectancy (1983): 46

Number of people per physician (1980): 13,800

Adult literacy: 5-10 percent

Percentage of primary age children in school (1981): 48%

Infant mortality (per 1000 births): 102

GNP per capita (1984): $380

Population growth: 2.9 percent

These data show a very poor country with very high rates of illiteracy and population growth.

B. Current Development Strategies and Goals

Senegal's current development plans are closely tied to a variety of economic reforms which the Senegalese government developed in consultation with the International Monetary Fund (IMF), the World Bank, and its foreign creditors. These measures were announced in 1984. They include stricter budget controls, some tax reforms, a government commitment to a market-oriented economy, a freeze on hiring public employees, and a reduction of government subsidies on basic commodities such as rice. 8/ Also part of the plan is a New Agricultural Policy, which is designed to reduce the role of government in

---

7/ World Bank. Financing Adjustment with Growth in Sub-Saharan Africa, 1986-90. Table 1. Basic Indicators, p. 67, and Table 25. Population Growth and Projections, p. 92; U.S. Congress. House Committee on Foreign Affairs and Senate Committee on Foreign Relations. Country Reports on Human Rights Practices for 1985. 99th Cong., 2d Sess. (Joint Committee Print) Report submitted by the Department of State. Washington, U.S. GPO, February 1986. p. 268.

8/ U. S. Department of Commerce, November 1985: 4; U.S. Agency for International Development. Congressional Presentation Fiscal Year 1987, Annex 1, Africa. p. 353; CDSS, p. 13-15, 17.

BEST COPY AVAILABLE

agriculture by eliminating certain rural development agencies and curtailing the activities of others. The functions of these agencies — such as providing farmers with agricultural supplies and marketing agricultural produce 9/ — will be turned over to the private sector. As part of the New Agricultural Policy, the government intends to diversify agricultural exports. Diversification is seen as necessary because of the decline in prices of peanut products on world markets. 10/

C. Current Level of Indebtedness

Senegal's foreign debt in 1985 amounted to approximately $2.4 billion, and 36 percent of its foreign exchange earnings that year were required to service the debt. 11/ The debt service projected for 1986 and 1987 will be 32 percent of Senegal's foreign exchange earnings. 12/

There are a number of reasons for the debt, including some beyond Senegal's control: (1) the decline of peanut and phosphate prices after Senegal had borrowed abroad expecting a continuation of the high prices that prevailed in the early 1970s; (2) the increase in oil prices in the mid to late 1970s; (3) the progressive devaluation of Senegal's currency (CFA franc) in relation to the U.S. dollar; and (4) persistent drought. 13/

9/ CDSS, p. 14-15, 17.

10/ CDSS, p. 15, 22-23.

11/ U.S. Department of Commerce, November 1985: 4.

12/ World Bank. Financing Adjustment with Growth in Sub-Saharan Africa, 1986-90. Table A.3. Debt Service Payments (Including IMF Repurchases and Charges), Due on Public Debt Outstanding at the End of 1984. p. 55.

13/ CDSS, p. 12; Congressional Presentation Fiscal Year 1987, p. 353.

BEST COPY AVAILABLE

Senegal's agricultural policies also contributed to the debt. Many western economists have identified the combination of poor policies and drought as the reasons for lower agricultural production. Lower food production, in turn, led to the need for greater food imports. The foreign exchange drain was exacerbated because the government continued to subsidize the costs of rice and sugar. This subsidy was reduced and the price of rice was allowed to rise in February 1982 and January 1985. 14/

Senegal began carrying out agreements with the IMF in 1979 in an attempt to deal with its debt. The government first instituted IMF-required reforms in 1980. Implementation was not always satisfactory, but, in December 1984, the government presented a new austerity plan to Senegal's donors and creditors. Early 1985 saw a new IMF agreement followed by a fourth Paris Club rescheduling. 15/ Senegal's view of rescheduling policies of creditors is that debt payments are burdensome to its economy and conditions of repayment should, therefore, be more lenient than is now the case. 16/

Senegal's tax revenues are declining while its foreign debt is increasing, affecting the government's ability to deliver services to its population. It is difficult to know to what extent this affects basic human needs services, but some observers believe that it probably does. 17/ Some think that the government's austerity measures may have meant fewer funds to hire personnel

---

14/ Congressional Presentation Fiscal Year 1987, p. 353; U.S. Department of Commerce, November 1985: 4; CDSS, p. 10-11, 14; Schissel, Howard. Diouf's Dilemmas. Africa Report, July/Aug. 1985: 26.

15/ U.S. Department of Commerce. Foreign Economic Trends: Senegal. February 1985: 4; U.S. Department of Commerce, November 1985: 3-4; Schissel, p. 25.

16/ Erves, Shirley, and Jerry Wolgin. Agency for International Development.

17/ Jerry Wolgin.

BEST COPY AVAILABLE

needed for health service programs. 18/ Debt service consumes funds that otherwise could be spent on government programs, and it uses foreign exchange needed to buy imports such as fertilizers and other items necessary for human needs services. 19/

Austerity measures imposed by the government as a result of the debt could affect human needs even without cuts in government programs. The rise in food prices and the petroleum price will adversely affect urban residents. On the other hand, measures to increase agricultural production and diversify crops might have a positive impact on debt. More local food would release for other purposes the foreign exchange that would have been used for food imports.

D. Policies of Lenders

The Senegalese government proposed a program of economic and financial adjustment at a creditor consultative meeting in December 1984. The program was endorsed by the IMF, the World Bank, and the country's creditors and donors. Some of the elements of the plan have already been implemented. They include:

-- An increase in and diversification of agricultural production as a means of increasing exports and reducing reliance on food imports, especially rice;

-- Restructuring the rural development agencies and eliminating the government's control of the distribution of agricultural inputs;

-- Liberalizing marketing arrangements;

-- Reducing government subsidies of agricultural inputs such as fertilizers, water, and electricity;

18/ CDSS, p. 29.

19/ Jerry Wolgin.

BEST COPY AVAILABLE

-- Converting parastatal organizations to privately owned enterprises;

-- Reforming the government's investments and budget process;

-- Reducing government spending on such items as civil service salaries;

-- A new credit policy that assists farmers with marketing their cash crops and requires government repayment of its debt to local commercial banks;

-- An external debt policy that keeps new borrowing to a strict minimum; and

-- Realistic pricing of basic food commodities which were subsidized, for example, rice and millet.

The December 1984 meeting was followed by a new IMF agreement in early 1985 and a fourth Paris Club rescheduling shortly thereafter. 20/

20/ U.S. Department of Commerce, February 1985: 4, and November 1985: 3-4; Schissel, p. 25.

BEST COPY AVAILABLE

IV. SUDAN *

Sudan faces an acute debt problem deriving primarily from ambitious development schemes undertaken in the early and mid-1970s. For 5 years, aid donors and the IMF have attempted to help Sudan come to grips with its debt problem, at the same time taking into consideration the severe constraints placed on Sudan from internal political instability and the drought of 1983-84. Nonetheless, in recent months the IMF has suspended further loans to Sudan because of its chronic arrearages. 1/ This suspension is likely to have repercussions in Sudan's relations with other donors, including the Paris Club.

A. Economic Situation

Sudan, located due south of Egypt on Africa's eastern coast, is Africa's largest country. This vast, climatically varied country has a sparse population of 22 million, of which 40 percent are Arabs and the majority is of diverse African tribal origins. Since the early 1970s, the state has been in control of all major economic activities.

Agriculture is the key sector in Sudan's economy. It generates 30 percent of GDP, employs 70 percent of the workforce, and is the source of virtually all of the country's exports. Sudan's agricultural potential is enormous:

---

* Prepared by Ellen Laipson, Specialist in Middle Eastern and North African Affairs

1/ Journal of Commerce, Feb. 6, 1986: 9A.

BEST COPY AVAILABLE

the country is the size of the United States east of the Mississippi, and only 10 percent of its arable land is cultivated.

The manufacturing sector in Sudan is small, and has grown less than 3 percent since 1980-81. Principal products include sugar, textiles, oilseed and cement. Oil is an under-exploited economic resource. Two viable oilfields have been identified, but development for production has been impeded by an insurgency in the south, where the fields are located.

Sudan's main source of foreign exchange earnings is the export of cotton. But cotton exports have lagged for years because of a weak international demand for cotton, and what experts see as inappropriate policies by Sudan, including setting unfavorable export prices. More recently, the quality of Sudanese cotton has declined, in part due to the lack of foreign exchange needed to purchase insecticides.

The drought of 1983-84 gravely affected Sudan's exports, and cost an estimated $300 million in export earnings in 1985. Exports of groundnuts, sesame, gum arabic, and sorghum were curtailed. Only exports of livestock increased, expedited to conserve the food and water that would have been needed to sustain the animals.

Emergency food aid to Sudan in 1984-85 totalled over one million tons of grain, and millions of dollars in support costs, from a variety of donors. The United States was a major contributor to drought relief efforts in Sudan; its FY 1985 contribution was $176 million. In addition, $80 million in U.S.-generated Sudanese pounds were diverted from development to drought relief efforts.

Sudan's balance of payments situation has been acute for over 5 years, with current account deficits above $700 million since 1980. Sudan entered U.S. fiscal year 1986 with virtually no foreign exchange reserves, arrearages

BEST COPY AVAILABLE

of $400 million, a balance of payments gap of $860 million, and a budget deficit of $300 million. 2/

Sudan's Balance of Payments

	1980/81	1981/82	1982/83	1983/84	1984/85
		(in $ millions)			
Current Account	-817	-1,192	-787	-785	-816
Capital Account	413	588	161	-397	-363
Changes in Reserves	-	-	-	7	65

General living standards in Sudan remain very low. Per capita income dropped from $400 in 1983 to $340 in 1984. Life expectancy is 48 years and the literacy rate is 25 percent. Some 52 percent of primary school age children attend school, and 18 percent attend secondary school. The World Bank estimates the population growth rate for 1980-2000 at an annual average of 2.8 percent, down from 3.2 percent in the decade from 1973 to 1983. Population per physicians ratios have improved, from 23,500:1 in 1965 to 8,930:1 in 1980.

B. Development Strategies and Goals

Sudan has undergone dramatic political change in the past two years. Each government has endorsed economic reform, but the upheavals have made significant reforms difficult to implement. An interim military government ruled Sudan after a coup ousted President Nimeiri in April 1985. One year later, elections were held, and in May, 1986, Sadiq el-Mahdi formed a new coalition government of five parties. (The third largest party, the National Islamic

2/ U.S. Agency for International Development. FY 1987 Congressional Presentation, Annex I. p. 417.

BEST COPY AVAILABLE

Front, declined to join the coalition.) The new premier has said Sudan needs time to decide how to deal with its pressing problems. The key causes of the economic problems are identified below.

First, Western experts generally agree that Sudan's poor development performance, despite great economic potential and significant donor support, can be attributed to ill-advised economic policies of the past 10-15 years. The decision to take public control of the means of production in the early 1970s led to economic disasters.

Second, Sudan's development prospects have been dampened by renewed political turmoil in southern Sudan in the 1980s, after the unravelling of former President Nimeiri's 1972 peace treaty with southern rebels. Foreign aid donors and private and voluntary organizations have halted operations in the southern third of the country because of security concerns. The Jonglei Canal project (to greatly increase Nile-irrigated land) and oilfield development in the south, among the brighter prospects for Sudan's anticipated development success a decade ago, have both fallen victim to the political instability, and no work has occurred for nearly two years.

The third factor contributing to the current economic crisis was the 1983-84 drought, which effectively diverted attention of the government and aid donors from development to relief activities.

Yet another factor that has complicated Sudan's development program was the imposition of Islamic law in 1983, radically altering internal financial management, institutions, and economic relations. Confusion resulting from new regulations and laws has further inhibited both foreign and local investors in Sudanese businesses and economic enterprises. The new civilian government has pledged to replace or modify major provisions of the Islamisization measures.

BEST COPY AVAILABLE

The U.S. aid strategy for Sudan has combined use of short-term stabilization measures, including quick-disbursing ESF funds and P.L. 480 commodity programs, with longer term development goals of institutional change and economic recovery. The United States has informally linked some of its sectoral aid to policy reform measures, and has reported its satisfaction at reductions in Sudanese food subsidies that occurred in 1983 and 1984.

In late 1985, the government's development objectives were summarized in a Sudanese magazine as: rehabilitation of existing projects, improvement of infrastructure, halting desert creep, and cushioning the impact of the drought. 3/

C. Indebtedness

Sudan's current external debt is $5.7 billion. Including borrowing from the IMF, total Sudanese liabilities in 1986 reached $7.3 billion.

(in $ billions)

Multilateral donors (incl. regional organs.)	$1.6
Paris Club	1.6
Non-Paris Club country donors	2.7
Arab funds	.3
Commercial banks	.9
Suppliers	.2
Total	$7.3

Sudan's debt represents 79.5 percent of its GNP and 913.2 percent of its export earnings from goods and services. Sources of the debt are major development projects and, more recently, balance of payments support.

The scheduled debt service for 1986-87 is $948 million, of which 16.9 percent is due the IMF, 45 percent is to country donors, 7 percent to multilateral organizations, and 31 percent to private sources.

3/ Sudanow, Ministry of Information and Public Guidance, Dec. 1985, p. 20.

BEST COPY AVAILABLE

Sudanese efforts to cope with the enormous debt problem have become embroiled in internal Sudanese politics, and reflect the fragility of Sudan's current political system. When the interim government under Gen. Sawar-Dahab took over in April 1985, the debt and the role of the IMF in Sudan were perceived to be the legacy of the deposed President Nimieri, and therefore politically unpalatable. Intra-Cabinet disputes over the desirability of working with the IMF -- which occurred from mid-1985 to the February 1986 IMF announcement that its work in Sudan was suspended -- received wide coverage in Sudan's relatively free press. 4/ There appears to be little popular support for submitting to IMF-recommended programs because of the political association with Nimieri, although the need for involving outside donors in the stabilization and recovery program is generally accepted.

Former President Nimieri had negotiated successfully a series of rescheduling agreements after a Paris Club rescue plan was agreed to in 1981. From 1981 to 1984, annual amendments to the initial agreement were made. In addition, Nimieri, with his close ties to the Arab world, obtained some relief from Saudi Arabia and Kuwait, which granted Sudan full deferral of its outstanding debt service obligations in 1984.

Authorities familiar with the situation in Sudan suggest that no particular basic human needs services have been eliminated or terminated due to the serious situation, but the meager services provided are offered more irregularly and less thoroughly. Services that depend on transportation, for example, may disappear for a period of time when there is no foreign exchange to purchase fuel.

4/ Sudanow, January 1986, p. 19.

BEST COPY AVAILABLE

The causes of the current precarious food situation are more directly related to the drought than debt. Nonetheless, the debt plays an indirect role in efforts to deal with the consequences of the drought. Distribution of food within the country from surplus to needy areas was affected by the poor quality of Sudan's infrastructure, which in turn was due to the lack of funds to maintain facilities or build new ones. (Food donor countries have attempted to address this problem, structuring relief to combine supplies and transport.) One U.S. official has characterized the deterioration in the critical north-south transportation and communications links as 50 percent due to the debt and 50 percent due to the southern insurgency.

The debt problem continues to plague Sudan's development prospects. While rainfall was adequate in 1985 and there was a bumper crop of sorghum, internal distribution of food was hampered by limited infrastructure and support. The cotton crop, the key foreign exchange earner, was of moderately good size, but its quality has been suspect because Sudan could not afford to import insecticides for the crop.

D. Policies of Lenders

IMF: In February of this year, the IMF suspended its negotiations in Sudan, in light of the $250 million arrearages (IMF's largest) and the failure of the government to agree to IMF recommendations for economic stabilization and recovery. For some observers, the IMF decision was simply the formalization of a situation that had prevailed for a number of months. It had some direct effects on other donors by reducing donor confidence in Sudanese commitment to reform measures.

World Bank: The World Bank has continued to operate in Sudan on specific projects. In December 1985, two loans for agricultural projects were approved,

BEST COPY AVAILABLE

valued at $30.6 million. World Bank procedures generally require that when a project is in arrears, disbursements stop.

Arab donors: Major Arab aid to Sudan is provided through specific Funds, not on a government-to-government basis. The Saudi or Kuwaiti Funds, for example, might finance particular projects. In mid-1985, several Arab governments made payments to their respective funds that paid off Sudan's interest arrears to those funds, and permitted project pipelines to reopen.

United States: One of the "Fundamental Concepts" set out in the 1984 AID Africa Bureau's Strategic Plan was donor coordination. The recent IMF decision to suspend its work with Sudan, therefore, places the United States in a difficult dilemma.

The United States, like other Paris Club donors, has adopted a wait-and-see posture for major program and commodity support aid, while permitting project aid to continue. In the past, the provision of U.S. program and commodity aid has generally been informally linked to policy reform performance and to continued compliance with IMF agreements. At present, the overall behavior of individual Paris Club donors is affected by their particular aid mixes: those primarily with project aid may continue, while donors of program-type aid are taking a more cautious approach. For the United States, the emergency evacuation of 300 Americans from Sudan in mid-April due to safety concerns in the aftermath of the U.S. attack on Libya has further complicated its aid activities, and projects in western Sudan in particular have been halted.

BEST COPY

V. MAURITANIA *

Mauritania, in the view of international financial institutions has a prolonged debt problem. Its external debt, currently over $1 billion, is nearly twice its GNP and four times its annual exports in goods and services. Significant policy reforms were implemented in 1985, and Mauritania has successfully negotiated rescheduling of its debt with the IMF and other major donors.

A. Economic Situation

Mauritania is a large, sparsely populated, arid country on the west coast of Africa south of Morocco and the Western Sahara. Somewhat smaller in area than Algeria, Mauritania's population in 1984 was 1.6 million. The Government of the Islamic Republic of Mauritania is currently headed by a military man, Col. Ould Sid Ahmed Taya, who serves as President and Prime Minister.

There are three main sectors in the Mauritanian economy: the agro-pastoral sector which employs 90 percent of the potential labor force, the mining sector (iron ore, copper, gypsum), and the fishing sector. While mining and fishing together employ under 20,000 people, their contribution to Mauritania's economic growth and foreign exchange far exceeds that of the traditional agro-pastoral sector. In the wake of the 1983 and 1984 African drought,

---

* Prepared by Ellen Laipson, Specialist in Middle Eastern and North African Affairs.

BEST COPY AVAILABLE

agriculture's share of GDP has declined steadily, to under 15 percent. Thus 90 percent of the labor force currently produces only 15 percent of GDP. In the 1960s, iron ore exports accounted for 85 percent of export earnings, although by 1983, fishing exceeded mining as a source of foreign exchange. Most observers consider Mauritania's fishing potential underexploited, and a key sector for future development prospects.

The food situation in Mauritania has been characterized as alarming. In 1984, Mauritania's food imports, 129,000 metric tons, were six times the 1980 level of imports. The FY 1985 cereals deficit was 150,000 MT. During the period 1981-84, Mauritania produced only 12 percent of its domestic cereal supply. Forty-nine percent of the food deficit (88 percent of consumption) was covered by foreign-financed food aid, and 39 percent by commercial imports, a majority of which was imported by a government monopoly. The Mauritanian government has earmarked one-third of the revenue it collects from sales of food aid commodities to finance rural development. The U.S. Government places priority in its development strategy for Mauritania on emergency food aid and food security, and the total P.L. 480 program in FY85 was $39 million. 1/

The balance of payments situation has been mixed in recent years. The current account improved in 1984, due to a decrease in project-related imports, and was expected to improve further in 1985. But the capital account worsened, as principal repayments rose and loan disbursements fell. The overall balance of payments deficit grew from 11.3 percent of GDP in 1983 to 15.4 percent of GDP in 1984. The deficit was financed by a decline in reserves, an accumulation of arrears, and debt relief.

1/ U.S. Agency for International Development. FY 1987 Congressional Presentation (CP), Annex I. p. 279.

BEST COPY AVAILABLE

Balance of Payments Data (in $1,000 million ougiyas)

	1981	1982	1983	1984	1985 (est)
Current Account	-7.6	-15.5	-12.1	-9.1	-6.5
Nonmonetary Capital Account	6.3	9.4	7.3	2.1	0.4
Change in Reserve Assets	-0.6	3.7	2.2	2.3	-0.7

In general, economic conditions in Mauritania have improved only slightly since independence. Living conditions are considered by international organizations as among the worst in the world. Life expectancy (47 years) and literacy rates (17 percent) are among the lowest in Africa. Only 25 percent of Mauritanian children attend primary school. Mortality, population growth (2.6 percent a year has been projected for 1980-2000), and unemployment are very high. There were 14,500 people per physician in 1980, an improvement over 36,600 in 1965. Per capita income in 1984 was $450. Migration into the capital area, driven by the creeping desertification of the country, has increased. The capital, Nouakchott, is experiencing a population growth rate of 14 percent a year, one of the highest in sub-Saharan Africa. 2/

B. Development Strategy and Goals

Significant changes in Mauritania's approach to government investment in development were made in 1985. After assessing the poor results of Fourth Development Plan (1981-85), with its priority on foreign financed capital-intensive projects, major changes in development strategy were approved by the Mauritanian government, and are being implemented in the new plan for 1985-88. The new strategy shifts priority to the rehabilitation of existing

2/ U.S. Agency for International Development, FY 1987 CP, Annex I. p. 279.

BEST COPY AVAILABLE

infrastructure, quick-yielding projects in agriculture, and to reducing imports and limiting foreign borrowing. Public investment is to be reduced by half in the new plan, and the rural sector, which received 19 percent of the 1981-85 plan's total investment, is targeted for a 35 percent share in the new plan.

Among the significant policy reforms implemented in 1985, Mauritania devalued its currency; increased grain prices for producers and consumers; and began to reform the parastatal organizations. These measures closely tracked the recommendations made by the World Bank in recent major reports on sub-Saharan Africa.

C. Current Level of Indebtedness

According to a recent World Bank report, Mauritania's total external public debt at the end of 1984 was $1.17 billion, and its total liabilities, including borrowing from the IMF, were $1.33 billion. The World Bank lists Mauritania among the 12 African countries with prolonged debt problems. In 1984 debt constituted 183 percent of GNP and 383 percent of exports of goods and services. The debt service in 1984 was $42.2 million, or 5.4 percent of GNP and 35 percent of exports of goods and services. 3/ Of the current debt, 89.5 percent is to official sources. Mauritania was $118 million in arrears on its external public debt in 1984.

The central government owes 68 percent of the debt, and the remainder is owed by the Central Bank and public and mixed enterprises. Over $300 million of the debt is for the Guelbs iron ore project, a public enterprise.

3/ The 35 percent figure is cited by U.S. AID. FY 1987 CP, Annex I. p. 279. The World Bank report, however, gives a 10 percent figure for 1984.

BEST COPY AVAILABLE

Virtually all other public enterprises, including the state refinery and Air Mauritania, are heavily indebted.

Lenders to Mauritania fall into the following categories:

Foreign governments	62%
International Organizations	28%
Suppliers	5%
Private Banks	5%
Total	100%

Within the foreign government category, Arab countries, Saudi Arabia and Kuwait in particular, constitute 84 percent of the total indebtedness. Paris Club members and the People's Republic of China make up the remainder.

Mauritania's efforts to deal with its debt problems are reflected in two major ways: 1) the new policy strategy implemented in 1985 that is intended to increase foreign exchange earnings (through improved exploitation of fishing in particular) and to reduce new foreign borrowing by curbing imports and scaling back foreign-financed infrastructure projects; and 2) active debt rescheduling efforts that have met with considerable success in the past year.

It is difficult to link the current debt problem in Mauritania with basic human needs services, since the government has provided little in the way of services even prior to the emergence of its debt problem. The low scale of government services is reflected in Mauritania's poor quality of education, health, and general living conditions. It is also possible to separate the most pressing human need -- food -- from the debt situation, since Mauritania is heavily dependent on concessional food aid. The United States, the key source of food aid for Mauritania, has provided its food aid in grant form, thus not contributing to the debt situation.

More indirect linkages between debt and basic human needs do exist. Any curbs in the country's development plans, whether in agriculture,

BEST COPY AVAILABLE

exploitation of mineral and fishing resources, or basic infrastructure, affect the prospects for economic growth and improvement in employment opportunities and living conditions.

To the degree that the 1985 policy reforms adopted by the government resulted from the debt situation, one could argue that the debt has caused a more realistic investment/development strategy. This, in turn, might produce short-term benefits in agriculture and other needs of the rural community in particular. It is difficult, however, to judge how much the debt situation per se was the determining factor in the new government approach to development and financing.

D. Debt Policies of Lenders

There appears to be consensus among Mauritania's lenders that policy reforms have been implemented effectively in recent months, and this has led to a rescheduling of about 50 percent of the debt due in 1985.

Bilateral: Mauritania successfully negotiated rescheduling agreements with Austria, Saudi Arabia, Kuwait and Morocco in 1984.

United States: For the United States, food security, both through increasing domestic production and managing food imports, has been the key focus of AID's bilateral aid strategy. In implementing the P.L. 480 food aid program in Mauritania, the United States has endorsed policy reforms consistent with those of other lenders, and considers food aid to be a vital and integral part of a coordinated donor strategy.

The Export-Import Bank is the only U.S. institution to which Mauritania is indebted. As of March 31, 1986, Ex-Im's exposure was $7.4 million, for a

BEST COPY AVAILABLE

sugar refinery. Mauritania failed to meet its scheduled payments in January and March 1986. A bilateral rescheduling meeting is planned for May 1986. 4/

World Bank: The Goverment of Mauritania and the IBRD undertook a comprehensive review of the economic situation last year. One outcome was the preparation of the economic and financial recovery plan for 1985-88 discussed earlier in this section. This plan was the subject of discussion at a Consultative Group that met in November 1985 to coordinate donor support for Mauritania. Over a dozen countries, including the United States, France, Saudi Arabia, Algeria and Brazil, attended the meeting. In addition, the group sought and received the support of the Paris Club.

Paris Club: In April 1985, the Paris Club and Mauritania reached agreement on rescheduling of SDRs 134 million, anticipated to cover 80 percent of all outstanding arrears and 50percent of those due in 1985.

IMF: The IMF and Mauritania reached agreement on a new stand-by agreement in April 1986. As part of the agreement, Mauritania is authorized to borrow an additional SDR 12 million from the Fund. 5/

4/ Information provided by Export Import Bank's Public Affairs Office, April 1986.

5/ International Monetary Fund Survey, vol. 15, May 5, 1986: 133.

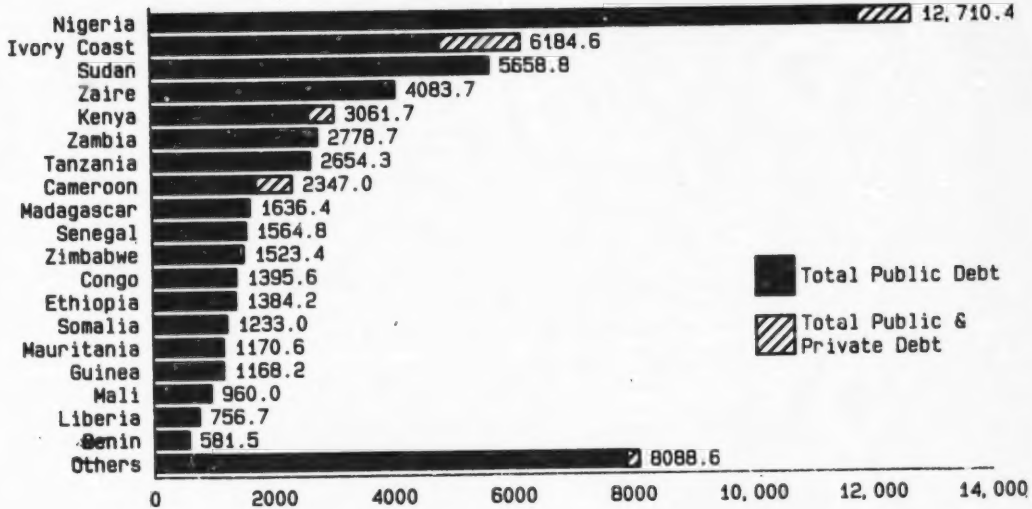
BEST COPY AVAILABLE

APPENDICES

BEST COPY AVAILABLE

BEST COPY AVAILABLE

AFRICAN WORLD DEBT, 1984
($ Millions)
(Source: World Bank)

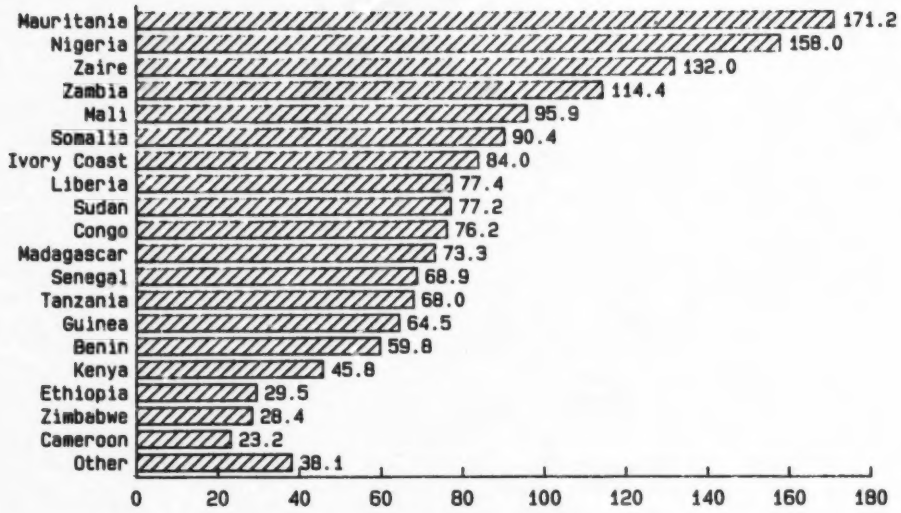


House Select Committee on Hunger
February 19, 1986

46

BEST COPY AVAILABLE

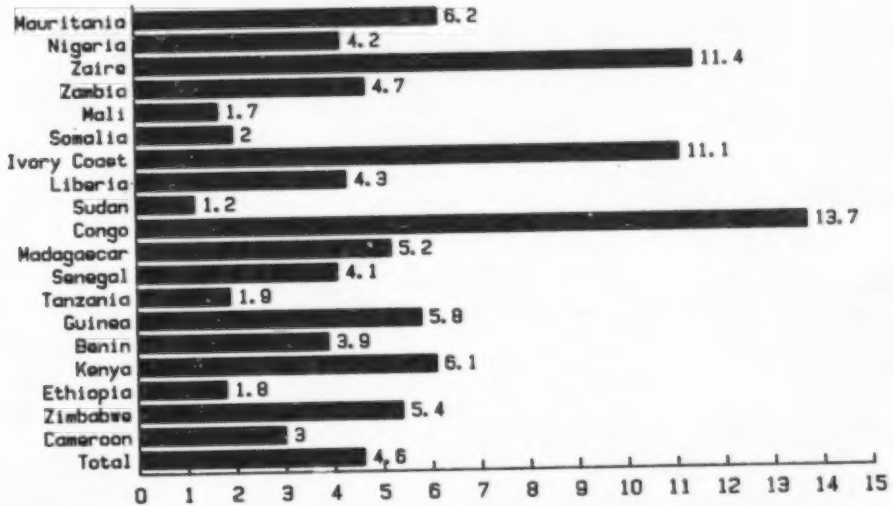
AFRICAN DEBT:
% GNP, 1984
(Source: World Bank)



Select Committee on Hunger
February 19, 1986

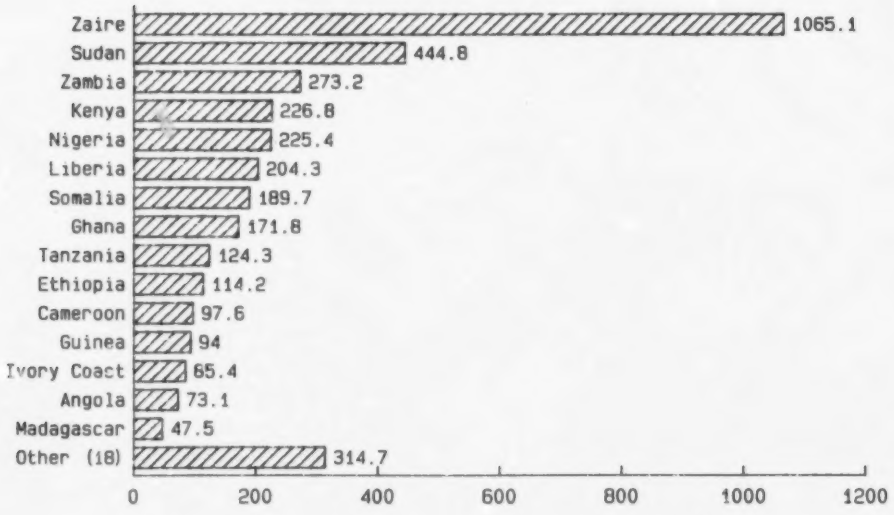
47

AFRICAN DEBT SERVICING, 1984
(% GNP)
(Source: World Bank)



Select Committee on Hunger
February 24, 1986

DEBT TO U.S. GOVT., 6/30/85
($ Millions)
(Source: Treasury Dept.)

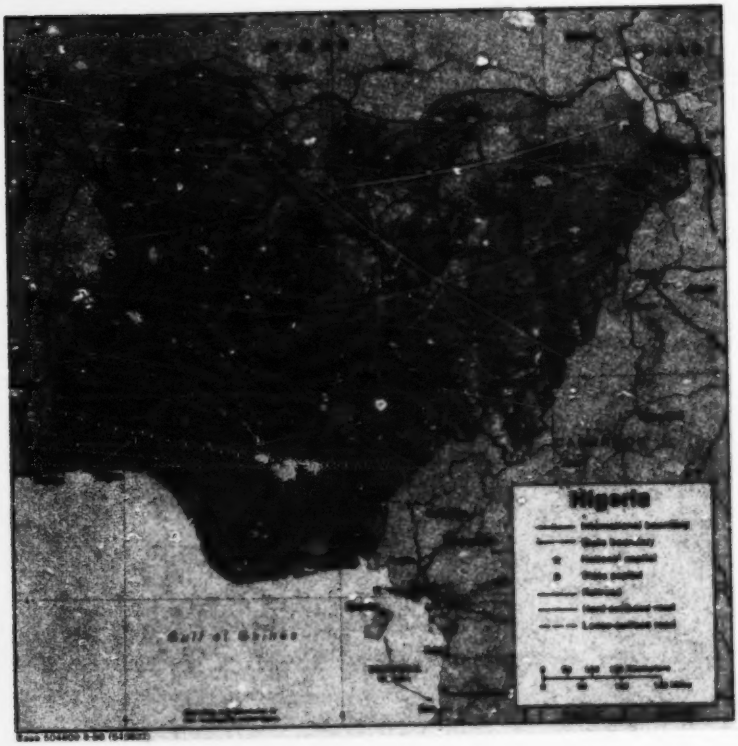


Select Committee on Hunger
February 20, 1986

49

Africa

BEST COPY AVAILABLE



BEST COPY AVAILABLE

BEST COPY AVAILABLE

BEST COPY AVAILABLE

BEST COPY AVAILABLE